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STATE OF MONTANA
Office of the Legislative Auditor

Report to the Legislature

OFFICE OF THE COMMISSIONER
OF HIGHER EDUCATION

AND

BOARD OF REGENTS OF HIGHER EDUCATION

Report on the Examination of Financial Statements
Two Fiscal Years Ended June 30, 1983



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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

		<u>Term Expires</u>
Ted Schwinden, Governor*		1984
Ed Argenbright, Superintendent of Public Instruction*		1984
Jeffrey Morrison, Chairman	Helena	1987
Mary Pace, Vice Chairman	Bozeman	1985
Darla Keck, Student Regent	Havre	1984
Elsie Redlin	Lambert	1984
Bert Hurwitz	White Sulphur Springs	1986
Robert Knight	Missoula	1989
Beatrice McCarthy	Anaconda	1990

*Ex officio members

ADMINISTRATIVE OFFICIALS

Irving E. Dayton	Commissioner of Higher Education
John H. Noble, Jr.	Deputy Commissioner for Management and Fiscal Affairs

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	<u>Page</u>
<u>Recommendation #1</u> The Office of the Commissioner of Higher Education:	
A. Record the reversion of overcollected millage correctly and ensure direct entries to fund balance are properly approved.	4
Agency Reply: Concur. See page 39.	
B. Recognize guaranteed student loan transfers on the accounting system.	4
Agency Reply: Concur. See page 39.	
<u>Recommendation #2</u> The Office of the Commissioner of Higher Education establish a system to ensure revenue is recorded on the accounting system in accordance with state policy.	6
Agency Reply: Concur. See page 39.	
<u>Recommendation #3</u> The Office of the Commissioner of Higher Education establish procedures to ensure federal grant reports are submitted in accordance with federal regulations.	7
Agency Reply: Concur. See page 39.	
<u>Recommendation #4</u> The Office of the Commissioner of Higher Education establish written procedures in its financial management system to ensure compliance with federal regulations.	9
Agency Reply: Partially Concur. See page 40.	
<u>Recommendation #5</u> The Board of Regents:	
A. Comply with state law for establishment of the advisory council and a commission.	10
Agency Reply: Partially Concur. See page 40.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
B. Seek legislation to change the existing law, if necessary.	10

Agency Reply: Partially Concur. See page 40.

Recommendation #6

The Board of Regents:

A. Comply with state laws governing its activities.	10
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Agency Reply: Partially Concur. See page 40.

B. Seek legislation to change the existing law, if necessary.	10
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Agency Reply: Partially Concur. See page 40.

Recommendation #7

The Board of Regents comply with state law for submitting budget reports or request the law be changed to reflect a more feasible deadline.

11

Agency Reply: Partially Concur. See page 41.

Recommendation #8

The Office of the Commissioner of Higher Education comply with state law for travel reimbursement.

12

Agency Reply: Concur. See page 41.

Recommendation #9

The Office of the Commissioner of Higher Education:

A. Reimburse the state General Fund for the portion of indirect cost reimbursement attributable to SWCAP.	13
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Agency Reply: Concur. See page 42.

B. Collect all indirect costs under its indirect cost recovery plan.	13
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Agency Reply: Concur. See page 42.

INTRODUCTION

We performed a financial compliance audit of the Office of the Commissioner of Higher Education (CHE) and the Board of Regents of Higher Education (BofR) for the two fiscal years ended June 30, 1982 and 1983.

The objectives of our audit were to: 1) express an opinion on the financial statements for the two fiscal years ended June 30, 1982 and 1983; 2) determine compliance with applicable state and federal laws and regulations; and 3) provide recommendations for improving management and internal controls of the office.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. If we determined that significant costs are associated with implementation of a recommendation, we disclose the cost in each report section.

We thank the Commissioner of Higher Education and his staff for their cooperation and assistance during the audit.

BACKGROUND

Board of Regents

Article X of the Montana Constitution establishes the BofR to govern and control the Montana University System. The board is also vested with the general supervision of community colleges.

The Board of Regents consists of seven members appointed by the Governor and confirmed by the Senate. The Governor and the State Superintendent of Public Instruction are ex officio members of the board.

Commissioner of Higher Education

Article X of the Montana Constitution requires the BofR to appoint a Commissioner of Higher Education and prescribe the term and duties of the office.

The Commissioner of Higher Education is responsible for overall supervision and coordination of units of the university

system in regards to academic planning and curriculum review, budgetary planning and control, provision of legal services, and establishing labor negotiation policies and procedures. The commissioner also administers student assistance programs and federal/private funded programs.

Student assistance programs include Western Interstate Commission for Higher Education (WICHE), State Student Incentive Grants (SSIG), and the Guaranteed Student Loan Program. The Montana Guaranteed Student Loan Program, established by the 1979 Montana Legislature, allows eligible students to receive guaranteed loans from lender institutions. The Montana Higher Education Student Assistance Corporation sells tax-exempt bonds to allow the lender institutions to sell their loans to a secondary market. We have issued a separate opinion on the 1982-83 guaranteed student loan financial statements which were prepared to assist in selling the bonds. Federal/private programs include Talent Search and the Montana Learning Services.

PRIOR AUDIT RECOMMENDATIONS

Our prior audit report for CHE and BofR was issued for the two fiscal years ended June 30, 1981. Of the seven recommendations still applicable to the office's operations, four have been implemented, one partially implemented and two have not been implemented.

The two recommendations not implemented during the audit period include approving authority and federal reporting requirements as discussed on pages 2 and 7, respectively.

APPROPRIATIONS

Approving Authority

During fiscal years 1981-82 and 1982-83, BofR delegated the approving authority for certain categories of budget amendments to CHE and the Chairman of the Board of Regents.

House Bill 500, passed by the 1981 Legislature, states that the budget and operational plan amendments must be approved by the appropriate approving authority. For the purposes of that

act, "approving authority means the governor or his designated representative, for executive branch agencies; the chief justice of the supreme court for judicial branch agencies; appropriate legislative committees for legislative branch agencies; or the board of regents for the university system." Although the act specifically states that the Governor may delegate his authority, it does not allow the Board of Regents to delegate its authority.

The university system processes hundreds of budget amendments during each fiscal year. The large number of amendments, especially those submitted near fiscal year end, may make it impractical for the Board of Regents to approve all amendments on a timely basis. The Board of Regents should approve all budget amendments as required by the appropriations bill. During the audit period the board was not in compliance with the appropriation language. This problem has been noted in two previous audit reports.

The board was given the authority to delegate the approval authority in House Bill 447, passed by the 1983 Legislature.

HIGHER EDUCATION TRANSFERS AND REVERSIONS

During the audit period CHE was transferring legislatively appropriated General Fund moneys and proceeds of the statewide 6 mill property tax to each of the six units in the university system and the community colleges. When one of the units of higher education has not spent or obligated its General Fund appropriation, the unit reverts the money to the Commissioner's Office. CHE then reduces the reported dollar amount of the operating transfer made to the unit. We noted the following problems with the operating transfers and reversions at the Commissioner's Office.

House Bill 412 Reversion

House Bill 412 requires that any millage collected in excess of \$13,079,452 be reverted to the General Fund. For fiscal year 1982-83 the excess amount was \$644,499. The reversion was

recorded by the Office of Budget and Program Planning for CHE as a direct entry to fund balance. This entry occurred because there was no appropriation authority to properly record the reversion as an operating transfer. The reversion should have been recorded as an operating transfer. State accounting policy requires that all direct entries to fund balance be approved by the Department of Administration (DofA), Accounting Division. This entry processed through the statewide accounting system without documentation of DofA approval.

Guaranteed Student Loan (GSL) Transfers

The guaranteed fee from guaranteed student loans is deposited in a reserve accounting entity. As the allowable administrative costs are transferred to the GSL administration entity to pay for operating expenses, CHE has been abating revenue in the reserve. This transaction should be recorded as an operating transfer. During the audit period the accounting system was not equipped to properly reflect operating transfers.

RECOMMENDATION #1

WE RECOMMEND THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION:

- A. RECORD THE REVERSION OF OVERCOLLECTED MILLAGE CORRECTLY AND ENSURE DIRECT ENTRIES TO FUND BALANCE ARE PROPERLY APPROVED.
- B. RECOGNIZE GUARANTEED STUDENT LOAN TRANSFERS ON THE ACCOUNTING SYSTEM.

REVENUE RECOGNITION

Generally accepted accounting principles (GAAP) and state accounting policy require that revenue be recognized in the accounting period in which it becomes available and measurable. To comply with this policy, grant revenue and a corresponding receivable should be recorded on the state's accounting system when expenditures have been made but reimbursement has not

been received by state fiscal year-end. Grant revenue should be deferred to the next fiscal year for moneys received prior to year-end in excess of program expenditures.

CHE receives federal moneys on an advance basis in anticipation of expenditures. CHE records revenue on the Statewide Budgeting and Accounting System (SBAS) when the funds are received from the federal government. This procedure does not allow the matching of revenue with related expenditures or recognition of revenue when earned.

We performed audit procedures designed to provide a basis for concluding on the agency's revenue. In our work we noted the agency partially implemented our prior audit recommendation. However, we identified the following problems in the agency's revenue recording. The agency has adjusted its financial statements for the errors noted.

1. In an attempt to match grant expenditures with grant revenue the agency established two invalid receivables. The receivables, which were established in the Special Revenue Fund, were \$72,379 at June 30, 1982 and \$25,545 at June 30, 1983. The problem resulted because the agency had received the grant moneys in a prior year and had not properly deferred the excess receipts.
2. Board of Regent coal trust revenues of \$787,126 for fiscal years 1981-82 and \$1,179,968 for fiscal year 1982-83 were incorrectly recorded as prior year revenue. The revenue should have been accounted for as current year revenue in the respective years.
3. During fiscal year 1981-82, CHE attempted to defer revenue to equal expenditures for four programs in the Special Revenue Fund. However, due to a clerical error, the entry was reversed. As a result, revenue is overstated by \$142,993 and deferred revenue is understated by \$142,993 in fiscal year 1981-82.
4. The receivable established for the administrative cost reimbursement for the Guaranteed Student Loan Program (GSL) was over estimated by \$81,807 in fiscal year 1981-82. The receivable is based on an estimate of fourth quarter guaranteed student loan activity. The agency was unaware of a restriction on the amount of GSL administrative costs which could be claimed and did not consider the restriction in its receivable estimate.

5. The deferrals on two grants for fiscal year 1982-83 were overstated by \$6,966. This occurred because unused grant revenue, subsequently returned to the federal government, was recorded in the wrong year.
6. During fiscal year 1982-83 we noted a \$81,654 reversion was recorded as revenue to the General Fund instead of as a reduction to the operating transfer. As a result, General Fund revenue is misstated in fiscal year 1982-83 by \$81,654.

If the agency had fully implemented the prior recommendation, these errors might not have occurred.

RECOMMENDATION #2

WE RECOMMEND THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION ESTABLISH A SYSTEM TO ENSURE REVENUE IS RECORDED ON THE ACCOUNTING SYSTEM IN ACCORDANCE WITH STATE POLICY.

FEDERAL GRANT COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-102, Attachment P. This circular provides for independent audits of financial operations, including compliance with certain federal laws and regulations.

We reviewed major compliance areas in the Talent Search, State Student Incentive Grant (SSIG), and State Occupational Information Coordinating Committee Grant (SOICC). The areas reviewed included compliance with specific grant provisions regarding reporting requirements and cost allowability. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

We noted the following problems in our review of federal compliance requiring disclosure in accordance with Attachment P. As a result of our audit, it is our opinion that the deficiencies noted did not significantly affect the successful operations of the programs or the allowability of costs in conformity with program regulations.

Reporting Requirements

Federal agencies have established reporting deadlines for receiving reports submitted by grantees. According to OMB "Circular A-102, Attachment H":

"Federal agencies shall require grantees to submit the Financial Status Reports no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 days for annual and final reports."

Other reports, as required by federal grant agreements, shall be submitted by the deadlines established by the federal agencies.

Five federal reports were not submitted to the federal agency by the required deadline. Reports for the Talent Search, SOICC, and SSIG grants, which were submitted three weeks to four months late, included financial status reports, performance reports, and a recipient report of expenditures. Two additional reports were not dated when submitted to the federal agency. As a result, we could not determine if these reports were submitted timely. We reviewed one program which requires quarterly financial status reports and noted the reports have not been submitted.

CHE officials stated that extensions had been obtained from the grantor agency. However, CHE did not have any written documentation that an extension had been approved. CHE should establish procedures to ensure federal reports are submitted on a timely basis. If federal deadlines cannot be met, CHE should obtain written approval from the federal government for the extension of the deadline.

This problem regarding late submission of annual reports was noted in our prior audit report.

RECOMMENDATION #3

WE RECOMMEND THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION ESTABLISH PROCEDURES TO ENSURE FEDERAL GRANT REPORTS ARE SUBMITTED IN ACCORDANCE WITH FEDERAL REGULATIONS.

Control System

Federal regulations require that recipients of federal grants maintain a financial management system that provides accurate, current, and complete disclosure of financial results; records that identify the source and application of funds; and effective control over and accountability for all funds and property.

During our review of federal grants received by CHE we noted the following errors which occurred in the financial management system:

1. Time sheets for employees charging time to the Montana Learning Service grant and the Talent Search grant are not reviewed and approved by the grant supervisor. As a result, there is no monitoring to ensure these payroll costs are allowable.
2. We noted one instance where the financial status report sent to the federal government for the SOICC grant was not supported by the accounting records. The unsupported amount was \$42. Also, a fiscal year 1982-83 financial status report was prepared based on estimates rather than actual costs.
3. CHE personnel approve the financial status reports for the MUAPS grant without reviewing the report and support documentation. However, CHE acts as the state's agent for the grant received from the federal government. These reports are prepared at the University of Montana.
4. CHE charged the SOICC grant \$44 for food served at workshops. Entertainment expenses are not allowable. As a result, we question the allowability of \$44.

CHE does not have written procedures detailing the financial management system over its federal moneys. As a result, errors occur in the system and remain undetected. A complete system would ensure monitoring of payroll costs, accurately supported accounting records, review of reports prior to approval, and denial of payment for unallowable costs.

RECOMMENDATION #4

WE RECOMMEND THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION ESTABLISH WRITTEN PROCEDURES IN ITS FINANCIAL MANAGEMENT SYSTEM TO ENSURE COMPLIANCE WITH FEDERAL REGULATIONS.

STATE COMPLIANCE

We reviewed compliance with significant state laws that could have a material impact on the financial statements of the Commissioner of Higher Education and the Board of Regents. In our opinion, except for the instances of noncompliance identified below, CHE and BofR complied with state laws and regulations tested. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Advisory Councils and Commissions

State law requires that various advisory councils and commissions be established by BofR. Section 2-15-1517, MCA, requires that the Board of Regents appoint a resident student financial assistance program advisory council. The advisory council serves at the pleasure of the Board of Regents. BofR has not established this advisory council. Agency officials stated that the advisory council has not been established because the legislature did not fund the financial assistance advisory council.

Section 2-15-1515, MCA, requires there be a commission of federal higher education allocated to the Board of Regents for administrative purposes. The commission consists of the members of the Board of Regents and is to include a representative from each private college. During our audit period, we noted the commission is inactive and has not met for three years. We determined there are no current representatives from the private colleges.

Agency officials stated that with the reduction in federal funds the council remains inactive. If this council and commission are not necessary, BofR should seek legislation to change the existing law.

RECOMMENDATION #5

WE RECOMMEND THE BOARD OF REGENTS:

- A. COMPLY WITH STATE LAW FOR ESTABLISHMENT OF THE ADVISORY COUNCIL AND A COMMISSION.
- B. SEEK LEGISLATION TO CHANGE THE EXISTING LAW, IF NECESSARY.

Board of Regents

The Board of Regents and the State Board of Education did not comply with the following state statutes during our audit period:

- 1. Section 20-25-301(13), MCA, requires BofR to appoint a budget committee composed of four regents. The committee currently consists of three regents.
- 2. Section 20-25-301(16), MCA, states each regent shall visit each unit at least once each year; there is no documentation that the regents visited each unit.
- 3. Section 20-2-112, MCA, requires BofR to meet quarterly at the same location on the 2nd Monday of April, July, September, and December. The regents met eight times during the year, however, not on the prescribed days.
- 4. Section 20-2-101(6), MCA, requires the Board of Education, of which the Board of Regents are members, to meet twice yearly on any two of the dates noted in 3 above. The board did meet but not on the prescribed dates.

RECOMMENDATION #6

WE RECOMMEND THE BOARD OF REGENTS:

- A. COMPLY WITH STATE LAWS GOVERNING ITS ACTIVITIES.
- B. SEEK LEGISLATION TO CHANGE THE EXISTING LAW, IF NECESSARY.

Budget Reports

The Board of Regents is to receive a proposed budget for the next biennium from the community colleges by August 15th preceding each regular legislative session. According to section 20-15-309, MCA, the board is to review these proposed budgets and submit a proposal for funding the community colleges to the budget director and the legislative fiscal analyst by the following September 1. We noted that the Board of Regents was not able to meet the deadline for submitting the budget to the appropriate parties. Budget office officials indicated that they had been late sending the forms to the community colleges. CHE officials indicated that due to the nature of the school year being different from the state fiscal year an extension is usually requested to allow schools to gather the information. The extension is normally obtained from the budget office, however, that office does not have the authority to grant an extension for the submission of these budget reports.

RECOMMENDATION #7

WE RECOMMEND THE BOARD OF REGENTS COMPLY WITH STATE LAW FOR SUBMITTING BUDGET REPORTS OR REQUEST THE LAW BE CHANGED TO REFLECT A MORE FEASIBLE DEADLINE.

Travel Reimbursement

In our expenditure testing we noted four travel expense vouchers that were not reimbursed in accordance with state law. The reimbursements exceeded the amount allowed by state law. Agency officials stated that two of the exceptions were oversights. In the other two exceptions, state employees were attending a conference paid with private grant funds. Employees attending the conference were reimbursed for actual expenses. Most attendees were reimbursed an average of \$40 per person for meals and \$29 per person for lodging.

Section 2-18-501, MCA, establishes travel reimbursement for state employees. This statute applies to all state employees even

if reimbursement is from private grant funds. Therefore, we question the allowability of the excess reimbursement for those employees attending the conference.

RECOMMENDATION #8

WE RECOMMEND THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION COMPLY WITH STATE LAW FOR TRAVEL REIMBURSEMENT.

Indirect Cost Reimbursement

The Commissioner of Higher Education did not have an approved indirect cost rate with the federal government during our audit period. Section 17-3-111, MCA, requires that agencies negotiate agreements with the federal government to recover, to the fullest extent possible, indirect costs of administrating federal grants.

During fiscal years 1981-82 and 1982-83 the agency received federal moneys totalling \$404,642 and \$208,919. These federal receipts could provide reimbursement of state indirect costs. By obtaining reimbursement of these costs through the federal grant, state funds would not be used to pay all these costs.

The Statewide Cost Allocation Plans (SWCAP) for fiscal years 1981-82 and 1982-83 identify indirect costs for services rendered by other state agencies for CHE. We did not determine the exact portion of these costs associated with the administration of the CHE's federal grants and contracts. Reimbursements received by the agencies for SWCAP costs are to be deposited in the state General Fund. As of September 1983 the agency has not deposited any money to the state General Fund for SWCAP costs.

During our audit period the agency was negotiating with the federal government to establish an indirect cost rate. However, a rate has not been established.

RECOMMENDATION #9

WE RECOMMEND THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION:

- A. REIMBURSE THE STATE GENERAL FUND FOR THE PORTION OF INDIRECT COST REIMBURSEMENT ATTRIBUTABLE TO SWCAP.
- B. COLLECT ALL INDIRECT COSTS UNDER ITS INDIRECT COST RECOVERY PLAN.

INTERNAL CONTROL

We have examined the financial statements of the Commissioner of Higher Education and the Board of Regents for the two fiscal years ended June 30, 1982 and 1983. We issued our opinion dated September 23, 1983, on these statements. As part of our examination, we made a study and evaluation of the system of control of the Commissioner's Office. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue and receivables;
2. payroll;
3. expenditures and payables;
4. cash; and
5. plant, property, and equipment.

Our study included the control categories listed above, except we did not evaluate the accounting controls over revenue and receivables, and property, plant, and equipment because the audit could be performed more efficiently by expanding substantive tests. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the agency is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required

to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deterioriate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the agency. However, our study disclosed conditions that indicate control weaknesses. These conditions relating to revenue are discussed in the section beginning on page 4.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial statements. This report on internal control does not affect our opinion on the financial statements.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

AUDITOR'S REPORT AND AGENCY FINANCIAL STATEMENTS

Office of the Legislative Auditor



STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

The Legislative Audit Committee
of the Montana State Legislature:

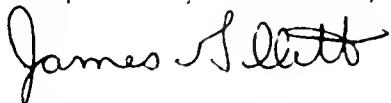
We have examined the Combined Balance Sheet - All Fund Types and Account Group; the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund Types and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds of the Office of the Commissioner of Higher Education as of June 30, 1983 and for the two fiscal years ended June 30, 1982 and 1983. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to in paragraph one present fairly the financial position of such funds of the Office of the Commissioner of Higher Education as of June 30, 1983 and the results of operations and changes in fund balance of such funds for each of the two fiscal years then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Federal Grant Receipts and Disbursements is presented for additional analysis and disclosure purposes and is not a required part of the basic financial statements for the Office of the Commissioner of Higher Education. This schedule has been subjected to the tests and other auditing procedures applied in the

examination of the basic financial statements described above, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

September 23, 1983

Approved:



Robert R. Ringwood
Legislative Auditor

COMMISSIONER OF HIGHER EDUCATION
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1983

	GOVERNMENTAL FUND TYPES		ACCOUNT GROUP
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>
<u>ASSETS</u>			
Cash	\$ 35	\$ 166,633	
Accounts Receivable	147,438	240	
Due from Eastern Montana College		343	
Due from Department of Education		115,959	
Due from MHESAC		9,146	
Accrued Interest Income		8,475	
Investments		1,027,576	
Fixed Assets			\$113,967
Total Assets	<u>\$147,473</u>	<u>\$1,328,372</u>	<u>\$113,967</u>
<u>LIABILITIES & FUND EQUITY</u>			
Liabilities:			
Accounts Payable	\$ 36,052	\$ 127,304	
Accrued Expenses	710	745	
Loan Recoveries Due to Department of Education		6,872	
Due to Earmarked Special Revenue Fund		396	
Receipts Collected in Advance		793,013	
Federal Advances Payable (Note 7)		150,000	
Due to Consolidated Entity	<u>110,711</u>		
Total Liabilities	<u>147,473</u>	<u>1,078,330</u>	
Fund Equity:			
Investments in General Fixed Assets			\$113,967
Fund Balance		250,042	
Total Fund Equity	<u>-0-</u>	<u>250,042</u>	<u>113,967</u>
Total Liabilities & Fund Equity	<u>\$147,473</u>	<u>\$1,328,372</u>	<u>\$113,967</u>

See accompanying notes to the financial statements.

COMMISSIONER OF HIGHER EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

GOVERNMENTAL FUND TYPES

	<u>General</u>	<u>Special Revenue</u>
REVENUES:		
Federal Grants	\$ 406,524	
State Grants	34,059	
Private Grants	67,669	
Guaranteed Student Loan Proceeds	<u>406,721</u>	
Total Revenues	<u>914,973</u>	
EXPENDITURES:		
Office Administration	\$ 724,389	
State Student Incentive Grants	174,992	197,605
WICHE Student Assistance Program	550,800	1,141,179
National Direct Student Loan Program	54,475	
Student Medical Assistance Program (WAMI)	1,497,835	
Minnesota Dentistry	147,000	
Montana Learning Services		128,810
Faculty Vitality		54,413
Talent Search		121,952
Guaranteed Student Loan		<u>281,196</u>
Total Expenditures	<u>3,149,491</u>	<u>1,925,155</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,149,491)	(1,010,182)
Prior Year Adjustment (GSL)		11,919
Prior Year Adjustment		(5,473)
OTHER FINANCING SOURCES:		
Support from State of Montana	3,149,491	
Support from Other State Agencies		1,785,678
Operating Transfer Out (Note 13)		<u>(644,499)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	-0-	137,443
FUND BALANCE, JULY 1, 1982	-0-	112,599
FUND BALANCE, JUNE 30, 1983 (Note 3)	\$ -0-	\$ 250,042

See accompanying notes to the financial statements.

COMMISSIONER OF HIGHER EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GOVERNMENTAL FUND TYPES	
	<u>General</u>	<u>Special Revenue</u>
REVENUES:		
Sale of Surplus Property	\$ 50	\$ 611,595
Federal Grants		122,790
Private Grants		247,434
Guaranteed Student Loan Proceeds		981,819
Total Revenues	<u>50</u>	
EXPENDITURES:		
Office Administration	658,977	
Student Incentive Grants	175,000	206,953
WICHE Student Assistance Program	673,400	883,804
National Direct Student Loan Program	64,420	
Student Medical Assistance Program (WAMI)	1,439,257	
Minnesota Dentistry	144,000	
1203 Comprehensive Planning		17,030
Montana Learning Services		128,281
Community Services		112,379
Guaranteed Student Loan		177,295
Talent Search		141,668
Faculty Vitality		119,799
Total Expenditures	<u>3,155,054</u>	<u>1,787,209</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,155,004)	(805,390)
Prior Year Adjustment	825	(8,275)
OTHER FINANCING SOURCES (USES):		
Support from the State of Montana	3,154,179	
Support from Other State Agencies		883,804
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-0-	70,139
FUND BALANCE JULY 1, 1981	-0-	51,400
PRIOR PERIOD ADJUSTMENT	<u>-0-</u>	<u>(8,940)</u>
FUND BALANCE JUNE 30, 1982 (Note 3)	<u>\$ -0-</u>	<u>\$ 112,599</u>

See accompanying notes to the financial statements.

COMMISSIONER OF HIGHER EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES:						
Federal Grants				\$ 609,346	\$ 406,524	\$ (202,822)
State Grants				26,238	34,059	7,821
Private Grants				100,000	67,669	(32,331)
Guaranteed Student Loan Proceeds					406,721	406,721
Total Revenues				<u>735,584</u>	<u>914,973</u>	<u>179,389</u>
EXPENDITURES:						
Office Administration	\$ 726,688	\$ 724,389	\$ 2,299			
Student Incentive Grants	175,000	174,993	7	211,592	197,605	13,987
WICHE Student Assistance Program	550,800	550,800	-0-	1,143,000	1,141,179	1,821
National Direct Student Loan Program	100,000	54,475	45,525			
Student Medical Assistant Program (WAMI)	1,625,272	1,497,835	127,437			
Minnesota Dentistry	168,000	147,000	21,000			
Montana Learning Services				150,681	128,810	21,871
Faculty Vitality				60,000	54,413	5,587
Talent Search				175,266	121,952	53,314
Guaranteed Student Loan				290,625	281,196	9,429
Total Expenditures	<u>3,345,760</u>	<u>3,149,492</u>	<u>196,268</u>	<u>2,031,164</u>	<u>1,925,155</u>	<u>106,009</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (Note 15)	(3,345,760)	(3,149,492)	196,268	(1,295,580)	(1,010,182)	285,398
Prior Year Adjustment (GSL)				11,919	11,919	-0-
Prior Year Adjustment				(5,473)	(5,473)	-0-
OTHER FINANCING SOURCES:						
Support (To) From State of Montana	3,345,760	3,149,492	196,268			
Support (To) From Other State Agencies				1,785,678	1,785,678	-0-
Operating Transfers (Note 13)				<u>(644,499)</u>	<u>(644,499)</u>	<u>-0-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES):	-0-	-0-	-0-	(147,955)	137,443	285,398
FUND BALANCE, JULY 1, 1982	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>112,599</u>	<u>112,599</u>	<u>-0-</u>
FUND BALANCE, JUNE 30, 1983	\$ -0-	\$ -0-	\$ -0-	\$ (35,356)	\$ 250,042	\$ 285,398

See accompanying notes to the financial statements.

COMMISSIONER OF HIGHER EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
	\$	\$	\$	\$	\$	\$
REVENUE:						
Sale of Surplus Property	\$ -0-	\$ 50	\$ 50	\$ 696,450	\$ 611,595	\$ (84,855)
Federal Grants				144,860	122,790	(22,070)
Private Grants					247,434	247,434
Guaranteed Student Loan Proceeds					981,819	140,509
Total Revenues	<u>-0-</u>	<u>50</u>	<u>50</u>	<u>841,310</u>	<u>981,819</u>	<u>140,509</u>
EXPENDITURES:						
Office Administration	674,801	658,977	15,824	211,592	206,953	4,639
Student Incentive Grants	175,000	175,000	-0-	911,000	883,804	27,196
WICHE Student Assistance Program	673,400	673,400	-0-			
National Direct Student Loan Program	100,000	64,420	35,580			
Student Medical Assistance Program (WAMI)	1,491,997	1,439,257	52,740			
Minnesota Dentistry	153,600	144,000	9,600			
1203 Comprehensive Planning				24,310	17,030	7,280
Montana Learning Service				139,002	128,281	10,721
Community Services				151,142	112,379	38,763
Guaranteed Student Loan				177,713	177,295	418
Talent Search				143,985	141,668	2,317
Faculty Vitality				121,260	119,799	1,461
Total Expenditures	<u>3,268,798</u>	<u>3,155,054</u>	<u>113,794</u>	<u>1,880,004</u>	<u>1,787,209</u>	<u>92,795</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (Note 15)	(3,268,798)	(3,155,004)	113,794	(1,038,694)	(805,390)	233,304
Prior Year Adjustments	-0-	825	825	(8,275)	(8,275)	-0-
OTHER FINANCING SOURCES (USES):						
Support (To) From State of Montana	3,268,798	3,154,179	(114,619)	883,804	883,804	-0-
Support (To) From Other State Agencies						
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-	(163,165)	70,139	233,304
FUND BALANCE JULY 1, 1981	-0-	-0-	-0-	51,400	51,400	-0-
PRIOR PERIOD ADJUSTMENT				(8,940)	(8,940)	-0-
FUND BALANCE JUNE 30, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (120,705)</u>	<u>\$ 112,599</u>	<u>\$ 233,304</u>

See accompanying notes to the financial statements.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Funds

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) and were adjusted to comply with generally accepted accounting principles for governmental organizations. The funds and account groups presented and their relationship to the state treasury fund structure are as follows:

General Fund - To account for all financial resources except those required to be accounted for in another fund. This fund corresponds with the general fund within the state treasury fund structure.

Special Revenue Fund - To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. This fund corresponds with the earmarked revenue fund, federal and private revenue fund, federal and private grant clearance fund, and university student loan fund within the state treasury fund structure.

General Fixed Asset Account Group - To account for furniture and equipment purchased by CHE. These funds correspond with amounts recorded in the Property Accountability and Management System (PAMS) within the Statewide Budgeting and Accounting System.

B. Description of Program

The state of Montana Guaranteed Student Loan (GSL) Program is located in the Office of the Commissioner of Higher Education. As a Special Revenue Fund it accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. The program was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions within the state of Montana.

C. Basis of Accounting

The preceding financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual.

Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and are received before the "normal" time of receipt or if received for a particular activity and the expense for the activity has not been incurred prior to fiscal year-end.

D. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1983 was immaterial.

E. General Fixed Assets and Depreciation

General fixed asset purchases are recorded as expenditures in the various funds at the time of purchase. (Gifts are recorded in general fixed asset records at fair market value at the time received and assets purchased are recorded at cost.) General fixed assets are not depreciated.

F. Accumulated Unpaid Vacation and Sick Pay

Accumulated unpaid vacation and sick pay are not accrued in governmental funds (using the modified accrual basis of accounting). At June 30, 1983, unrecorded General and Special Revenue Fund liabilities included \$54,042 of vacation pay and \$38,395 of sick pay.

2. EMPLOYEES' RETIREMENT SYSTEM

The Commissioner's Office employees are covered by the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). Under these plans, the state contributes 6.2 percent and 6.312 percent of an employee's gross wages to PERS and TRS, respectively. The employee contributes 6 percent and 6.187 percent of his gross wages for the two systems, respectively.

The state's policy is to fund accrued pension costs. Based on the most recent actuarial valuation report on June 30, 1982, the Public Employees' Retirement System was actuarially sound. The Teachers' Retirement System was actuarially sound at June 30, 1981.

3. GENERAL FUND BALANCE

The agency's General Fund beginning and ending balance on a nonconsolidated basis is zero since any balance in the fund is owed to the state General Fund at fiscal year-end.

4. INVESTMENTS

Investments are units purchased in the state of Montana's Short-Term Investment Pool and are reflected at cost. The June 30, 1983 balance reflects the following:

<u>Number of Units</u>	<u>Cost</u>	<u>Market Value</u>
<u>1,112</u>	<u>\$1,027,576</u>	<u>\$1,017,957</u>

5. UNIVERSITY SYSTEM EXPENDITURES

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - All Governmental Fund Types does not include some disbursements that pass through the Office the Commissioner of Higher Education. The following is a listing of these disbursement amounts for fiscal years 1983 and 1982:

Fiscal Year 1983

<u>Description</u>	<u>Amount</u>
General Fund	\$76,735,961
Millage	13,079,452
Community College	2,643,923

Fiscal Year 1982

<u>Description</u>	<u>Amount</u>
General Fund	\$65,758,565
Millage	12,272,394
Community College	2,493,459
Other	78,000

The appropriation amounts are also recorded by the Commissioner's Office. These expenditures are reported in the university units' financial statement since the transactions relate to the units' operations.

6. LEASES

Payments for leased facilities in fiscal year 1982-83 were made for \$68,580. Lease rentals are recorded as expenditures over the lease term as payments are made.

Commitments under the lease agreements for facilities, classified as operating leases, provide for the following minimum lease payments:

1984	\$ 68,580
1985	68,580
1986	68,580
1987	68,580
1988	<u>68,580</u>
	<u>\$342,900</u>

The Montana Learning Services (MLS) program entered into a lease for an Apple IIe Computer at the end of fiscal year 1983 from Computerland of Billings. Subsequent to June 30, 1983, and before one lease payment had been made, the Montana State Occupational Information Coordinating Committee (SOICC) purchased the

Apple IIe computer for MLS' use. The lease between MLS and Computerland was terminated and MLS continues to use the computer.

7. FEDERAL ADVANCES PAYABLE

The Guaranteed Student Loan Program has received \$150,000 in the first three years of its operation from the United States Government, Department of Education, to assist the program in its start-up stages. These funds are restricted in their use and may be recalled by the federal government if the reserve maintained by the program exceeds certain requirements. At June 30, 1983, the program's reserve had not exceeded the requirements.

8. UNFAVORABLE VARIANCE

The unfavorable variance shown of \$11,317 for the Guaranteed Student Loan (GSL) Program expenditures results from non-budgeted expenditures.

9. RESTRICTED INCOME FUND BALANCE

This fund balance accounts for all interest earnings on the advances discussed in Note 5 as these interest earnings must be maintained for claim payments by program regulation.

10. ADMINISTRATIVE COST ALLOCATION REVENUE

The fiscal year 1983 Administrative Cost Allocation revenue includes \$51,528 of accrued revenue which is dependent upon the federal appropriation.

11. NET LOAN LOSS EXPENSE

The United Student Aid Fund (USAID) pays individual lending institutions for any loans that have been defaulted or are unpaid due to the death of the borrower. The Guaranteed Student Loan (GSL) Program reimburses USAID for the amounts paid on death and default claims. The GSL Program then seeks payment from the Department of Education to be reimbursed for payment to USAID for the death and default claims.

The extent of this activity for the past two fiscal years is shown below:

	<u>1983</u>	<u>1982</u>
Death Claims Loss	\$34,448	\$27,392
Death Claims Insured by the Department of Education	(34,448)	(27,392)
Default Claims Loss	254,734	58,566
Default Claims Insured by the Department of Education	(254,734)	(58,566)

12. NET LOAN RECOVERIES

The United Student Aid Fund (USAID) seeks collection of loans that have been defaulted. Upon collection of all or a portion of a defaulted loan, USAID deducts an amount, not to exceed 30 percent of the collected amount, as a collection fee, and gives the balance to the Guaranteed Student Loan (GSL) Program. Since the GSL Program has already received payment for the defaulted loan from the Department of Education previously, the amount of the net loan recovery is owed back to the Department of Education.

The extent of this activity for the past two fiscal years is shown below:

	<u>1983</u>	<u>1982</u>
Loan Recoveries Received	\$2,160	\$515
Loan Recoveries Owed to the Department of Education	(2,160)	(515)

13. HOUSE BILL 412 REVERSION COMPLIANCE

At fiscal year-end 1983, \$644,499 of millage in excess of \$13,079,452 was reverted to the General Fund.

14. GUARANTEED STUDENT LOAN PROGRAM TRANSFER

The Guaranteed Student Loan (GSL) Program is accounted for in two accounting entities. One accounting entity, the Reserve accounting entity, receives all of the money collected for the program. All investments are made from this accounting entity.

The other accounting entity, the Administration accounting entity, records all of the administration costs, including payroll expenses, processing fee charges, death and default claim payments, and travel expenses. In order to pay for these administration costs, money is transferred from the Reserve to the Administration periodically. The following shows the amounts transferred between accounting entities for the last two fiscal years:

Fiscal Year 1982	\$177,713
Fiscal Year 1983	\$290,000

15. REVERSION OF APPROPRIATION AUTHORITY

The Office of the Commissioner of Higher Education reverted General Fund appropriation authority in the amount of \$113,794 and \$196,268 in fiscal year 1982 and fiscal year 1983, respectively.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF FEDERAL GRANT RECEIPTS AND DISBURSEMENTS
FISCAL YEARS 1981-82 AND 1982-83

	<u>Fiscal Year 1982</u>	<u>Fiscal Year 1983</u>
	<u>Receipts</u>	<u>Disbursements</u>
<u>U.S. Department of Education</u>		
1203 Comprehensive Planning		
Funds	\$ (492)	\$ 17,030
SSIG 81	(38,899)	(1,448)
SSIG 82	211,592	206,952
SSIG 83		\$ (1,910) \$ 2,729 197,612 197,605
Community Services '74	(1,812)	
Community Services '75	(1,135)	
Community Services '76	(13,569)	2,867
Community Services '77	(2,070)	
Community Services '78	(702)	29,907
Community Services '79	(1,278)	16,979
Community Services '80	(3,490)	43,151
Community Services '81	10,000	40,000
EIC Grant	12,001	14,796
Pilot Program	5,705	4,963
Vocational Education	16,000	14,814 20,160 18,699
Talent Search	143,985	141,642 131,937 127,963
<u>U.S. Department of Labor</u>		
NOICC 82	81,000	79,353 14,770 15,542
NOICC 83		72,958 66,555
CETA	16,952	17,211 2,265
SOICC	<hr/>	<hr/> 16,078 14,975
Totals	<hr/> <u>\$433,788</u>	<hr/> <u>\$628,217</u> <hr/> <u>\$451,605</u> <hr/> <u>\$446,333</u>

This schedule is prepared recording receipts and disbursements on the cash basis. Because of the difference in accounting methods, items on this schedule may not agree to amounts included in the financial statements.

STATE OF MONTANA

Office of the Legislative Auditor



STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheet - All Fund Types; the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund Types and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Governmental Fund Types of the Board of Regents of Higher Education as of June 30, 1983 and for the two fiscal years ended June 30, 1982 and 1983. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to in paragraph one present fairly the financial position of such funds of the Board of Regents of Higher Education as of June 30, 1983 and the results of operations and changes in fund balance of such funds for each of the two fiscal years then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Respectfully submitted,

A handwritten signature in cursive ink that appears to read "James H. Gillett".

James H. Gillett, CPA
Deputy Legislative Auditor

September 23, 1983

Approved:

A handwritten signature in cursive ink that appears to read "Robert R. Ringwood".

Robert R. Ringwood
Legislative Auditor

BOARD OF REGENTS
COMBINED BALANCE SHEET
ALL FUND TYPES
JUNE 30, 1983

<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General</u>	<u>Special Revenue</u>
ASSETS		
Cash in Treasury		\$ 1,821
Due from Commerce (Note 2)		1,527,260
Spending Authority Available to Pay Accrued Obligations and		
Accounts Payable	<u>\$2,957</u>	
Total Assets	<u>\$2,957</u>	<u>\$1,529,081</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts Payable	\$ 687	
Due to Other Accounting Entities	2,160	\$ 431,980
Accrued Expenditures	110	
Total Liabilities	<u>2,957</u>	<u>431,980</u>
Fund Balance	<u>-0-</u>	<u>1,097,101</u>
Total Liabilities and Fund Equity	<u>\$2,957</u>	<u>\$1,529,081</u>

See the accompanying notes to the financial statements.

BOARD OF REGENTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General</u>	<u>Special Revenue</u>
REVENUES:		
Coal Tax Interest Income		\$1,537,947
EXPENDITURES:		
Regent Travel and Per Diem	\$19,622	_____
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(19,622)	1,537,947
OTHER FINANCING SOURCES (USES):		
Support from State of Montana	19,622	
Support to Other State Agencies	_____	(1,141,179)
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)		396,768
FUND BALANCE - JULY 1, 1982	<u>-0-</u>	<u>700,333</u>
FUND BALANCE - JUNE 30, 1983	<u>\$ -0-</u>	<u>\$1,097,101</u>

See accompanying notes to the financial statements.

BOARD OF REGENTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General</u>	<u>Special Revenue</u>
REVENUES:		
Coal Tax Interest Income		<u>\$1,179,968</u>
EXPENDITURES:		
Regent Travel and Per Diem	<u>\$ 23,028</u>	
EXCESS REVENUE OVER (UNDER)		
EXPENDITURES	(23,028)	1,179,968
Prior Year Adjustment	(179)	5,013
OTHER FINANCING SOURCES (USES):		
Support from State of Montana	23,207	
Support to Other State Agencies		<u>(883,804)</u>
EXCESS REVENUE OVER (UNDER)		
EXPENDITURES AND OTHER		
FINANCING SOURCES (USES)	-0-	301,177
FUND BALANCE - JULY 1, 1981	<u>-0-</u>	<u>399,156</u>
FUND BALANCE - JUNE 30, 1982	<u>\$ -0-</u>	<u>\$ 700,333</u>

See accompanying notes to the financial statements.

BOARD OF REGENTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

GOVERNMENTAL FUND TYPES						
	General Fund			Special Revenue Fund		
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES:						
Coal Tax Interest Income				\$1,143,000	\$1,537,947	\$ 394,947
EXPENDITURES:						
Regent Travel and Per Diem	\$25,104	\$19,622	\$5,482			
EXCESS REVENUE OVER (UNDER) EXPENDITURES (Note 3)	(25,104)	(19,622)	5,482	1,143,000	1,537,947	394,947
OTHER FINANCING SOURCES (USES):						
Support from General Fund	25,104	19,622	(5,482)			
Support to Consolidated Entity				(1,143,000)	(1,141,179)	1,821
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-	-0-	396,768	396,768
FUND BALANCE - JULY 1, 1982	-0-	-0-	-0-	-0-	700,333	700,333
FUND BALANCE - JUNE 30, 1983	\$ -0-	\$ -0-	\$-0-	\$ -0-	\$1,097,101	\$1,097,101

See accompanying notes to the financial statements.

BOARD OF REGENTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

GOVERNMENTAL FUND TYPES

	General Fund			Special Revenue Fund		
	<u>Budget</u>	<u>Actual</u>	Variance-	<u>Budget</u>	<u>Actual</u>	Variance-
			Favorable (Unfavorable)			(Unfavorable)
REVENUE:						
Coal Tax Interest Income	_____	_____	_____	\$ 911,000	\$1,179,968	\$268,968
EXPENDITURES:						
Regent Travel and Per Diem	\$ 23,029	\$ 23,028	\$ 1	_____	_____	_____
EXCESS REVENUE OVER (UNDER) EXPENDITURES (Note 3)	(23,029)	(23,028)	1	911,000	1,179,968	268,968
Prior Year Adjustment	(179)	(179)	-0-	5,013	5,013	-0-
OTHER FINANCING SOURCES (USES):						
Support from State of Montana	23,208	23,207	(1)	916,013	(883,804)	32,209
Support to Other State Agencies	_____	_____	_____	_____	_____	_____
EXCESS REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-	-0-	301,177	301,177
FUND BALANCE - JULY 1, 1981	-0-	-0-	-0-	399,156	399,156	-0-
FUND BALANCE - JUNE 30, 1982	\$ -0-	\$ -0-	\$ -0-	\$ 399,156	\$ 700,333	\$301,177

See accompanying notes to the financial statements.

BOARD OF REGENTS
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Funds

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) and were adjusted to comply with generally accepted accounting principles for governmental organizations. The funds presented and their relationship to the state treasury fund structure are as follows:

General Fund - To account for all financial resources except those required to be accounted for in another fund. This fund corresponds with the general fund within the state treasury fund structure.

Special Revenue Fund - To account for the proceeds of specific revenues sources that are legally restricted to expenditure for specified purposes. This fund corresponds with the earmarked revenue fund, federal and private revenue fund, federal and private grant clearance fund within the state treasury fund structure.

B. Basis of Accounting

The preceding financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual.

Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and are received before the "normal" time of receipt or if received for a particular activity and the expense for the activity has not been incurred prior to fiscal year-end.

2. ACCOUNTS RECEIVABLE

Accounts receivable presented on the balance sheet represents coal tax interest income earned as of June 30, 1983, but not received from the Department of Commerce.

3. REVERSION OF APPROPRIATION AUTHORITY

The Board of Regents reverted General Fund appropriation authority in the amount of \$1 and \$5,482 in fiscal years 1981-82 and 1982-83, respectively.

AGENCY RESPONSE



THE MONTANA UNIVERSITY SYSTEM

33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-2602

(406) 449 3024

COMMISSIONER OF HIGHER EDUCATION

January 18, 1984

RECORDED

MONTANA LEGISLATIVE AUDITOR

Mr. Robert Ringwood
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

This letter is in response to the audit of the office of Commissioner of Higher Education and the Board of Regents for the two fiscal years ending June 30, 1983. We concur with the recommendations made by your auditors and appreciate the informal suggestions that were provided during the course of the audit.

With regard to your specific recommendations, I submit the enclosed responses and comments.

Sincerely,

Irving E. Dayton
Irving E. Dayton
Commissioner of Higher Education

IED:jw

Enclosure

AUDIT RECOMMENDATION #1

We recommend the office of the Commissioner of Higher Education:

- A. Record the reversion of overcollected millage correctly and ensure direct entries to fund balance are properly approved.
- B. Recognize Guaranteed Student Loan transfers on the accounting system.

Commissioner's Response

- 1A. Concur
- 1B. Concur. However, because the Guaranteed Student Loan program is in the Special Revenue fund, which is budgeted for expenditures and transfers, a budget amendment would be required each year of the current biennium to establish budget authority in order to allow a transfer-out in the reserve accounting entity.

We will seek budget authority for the 1987 Biennium which will allow us to accomplish the recordation of transfers between the GSL accounting entities on the accounting system.

AUDIT RECOMMENDATION #2

We recommend the office of the Commissioner of Higher Education establish a system to ensure revenue is recorded on the accounting system in accordance with state policy.

Commissioner's Response

1. Concur.

AUDIT RECOMMENDATION #3

We recommend the office of the Commissioner of Higher Education establish procedures to ensure federal grant reports are submitted in accordance with federal regulations.

Commissioner's Response

1. Concur. We will update our effort to meet all federal reporting deadlines. In the past, the federal agency involved has always granted an extension over the phone. In the absence of a timely report, we will attempt to get extensions in writing.

AUDIT RECOMMENDATION #4

We recommend the office of the Commissioner of Higher Education establish written procedures in its financial management system to ensure compliance with federal regulations.

Commissioner's Response

1. Partially concur.

Comments referring to points listed on page 8:

- 1) Although unsigned, the timesheets were always reviewed in the past. The timesheets are now being signed to document that the timesheets have been reviewed.
- 3) MUAPS Grant - We will attempt to transfer the entire responsibility for the MUAPS program to the University of Montana. It would be a costly, duplicative effort to prepare or review the grant reports of U of M.
- 4) SOICC Grant - The \$44.00 was for coffee and donuts served at the workshops. We believe that such expenditures are appropriate and do not constitute entertainment under the federal guidelines.

AUDIT RECOMMENDATION #5

We recommend the Board of Regents:

- A. Comply with state law for establishment of the Advisory Council and a Commission.
- B. Seek legislation to change the existing law, if necessary.

Commissioner's Response

1. Partially concur. The Regents may want to activate a student financial assistance program advisory council and seek additional funds for its operation. The board will review the recommendation.

The Commission of Federal Higher Education (1203 Commission) has suspended its activities due to the lack of federal funds. If federal funding resumes, the commission would have to be activated to comply with the federal guidelines under the act. Thus, the Regents may want to leave the law on the books even though there is no funding at the present time.

AUDIT RECOMMENDATION #6

We recommend the Board of Regents:

- A. Comply with state laws governing its activites.
- B. Seek legislation to change the existing law, if necessary.

Commissioner's Response

1. Partially concur. I will meet with the board and discuss the auditor's recommendations. Obviously, the laws cited have been on the books for many years and may have been appropriate

when there was a "single board". The recommendation has fiscal implications as it would be more costly to comply with all of the statutory sections of the code. For instance, a visit by each Regent to each campus each year is not provided for in the budget. We make it a point to hold meetings on at least two different campuses each year and rotate the locations. The Regents that serve on campus presidential search committees or on the Regents' Long Range Building and Planning committee may exceed the statutory requirement.

Prescribing the meeting dates in statute is unwise as we cannot assure a quorum to conduct business on any given statutory date. The Regents may agree that the statutes mentioned in the report should be repealed.

AUDIT RECOMMENDATION #7

We recommend the Board of Regents comply with state law for submitting budget reports or request the law be changed to reflect a more feasible deadline.

Commissioner's Response

1. Partially concur. Since the Regents always meet in mid-September, budget materials are usually transmitted after the Regents have taken formal action at their September meeting. We have always had an extension granted from the budget office in order to avoid the cost of a separate August meeting. The two week delay has never created a hardship on anyone and seems to be more cost efficient.

The statute seems to imply that the budget director and legislative fiscal analyst have some degree of latitude when scheduling the submission of budget information. Section 17-7-112(2) in part states;

"The transfer of budget information shall be done on a schedule mutually agreed to by the budget director and the legislative fiscal analyst in a manner that facilitates an even transfer of budget information during the month of September and which allows each office to maintain a reasonable staff workflow."

In the absence of concurrence by the persons involved that a later submission will be acceptable, we will adjust our schedule for submission of our budget requests accordingly even if, in our opinion, such adjustment may be unnecessarily costly and inefficient.

AUDIT RECOMMENDATION #8

We recommend the office of the Commissioner of Higher Education comply with state law for travel reimbursement.

Commissioner's Response

1. Concur.

AUDIT RECOMMENDATION #9

We recommend the office of the Commissioner of Higher Education:

- A. Reimburse the state general fund for the portion of indirect cost reimbursement attributable to SWCAP.
- B. Collect all indirect costs under its indirect cost recovery plan.

Commissioner's Response

1. Concur. The SWCAP portion of the indirect cost reimbursements we have collected in the past have been insignificant — easily less than \$1,000 each year.

In the future, we will reimburse the state general fund for the portion of indirect cost reimbursement attributable to SWCAP.

